



Of Interest In Kentucky

Quarterly Newsletter of the Department of Financial Institutions

Issue No. 10, Fall 2009

"DFI's mission is to serve Kentucky residents and protect their financial interests by maintaining a stable financial industry, continuing effective and efficient regulatory oversight, promoting consumer confidence, and encouraging economic opportunities."

Sound banking and strong management

The causes of the current economic crises are well documented, and have been thoroughly discussed in the media. The excessive risk taking in the mortgage market (by both consumers and investors) has resulted in the deepest and longest recession since the Great Depression. During 2009, there have been more than 120 bank failures, and regulators are predicting a rough road ahead for the banking industry in 2010. Despite these turbulent economic times, the Kentucky banking industry remains well capitalized, profitable and poised to lead the Commonwealth out of this recession and into a period of economic expansion.



Charles A. Vice the Kentucky banking industry successfully dealt with the recent economic problems? The answer is simple: good management, conservative investments, strong capital ratios and proactive resolution of problems. This does not mean that Kentucky is devoid of problems, but when problems occur, the banking industry is able to withstand the storm.

For the most part, Kentucky banks avoided asset quality problems by not participating in the risky underwriting practices employed in other parts of the U.S. Subprime loans in Kentucky represent less than 10 percent of the total loans serviced in the state, and less than 1 percent of the total U.S. subprime mortgage market. In addition, Kentucky banks sparingly purchased private

Continued on Page 2 ...



The DFI Board met Sept. 24 in Bowling Green. From left to right are W. Fred Brashear, Alla Sue Holland, Robert Stafford Jr., Monti Rhea Collins, Charles Vice, Kevin Walsh, Katherine Reese Capps, Frank Ramsey Jr. and Mark Gooch. Charles Beach III, David Beck and William Edward Hesch were unable to attend.

Board reviews activity

The Board of the Kentucky Department of Financial Institutions (DFI) met on Sept. 24 in Bowling Green. DFI management presented a review of the year's activities in the agency's various divisions and branches. Then the board members offered their perspective on regulation and the health of financial institutions in today's economy. The 12

members represent banking, consumer finance, credit unions, public at large and securities.

Commissioner Charles Vice said he values the input of the board members, the industry and the public. Anyone who has questions or suggestions regarding the regulation of financial institutions in Kentucky is welcome to contact DFI.



**Happy
Holidays!**

From the staff at DFI

Sound banking and strong management

label (non-government issued) mortgage-backed securities, which tend to have much higher levels of credit risk than mortgage securities issued by government-sponsored entities. Nonperforming assets to total assets at all banks in the U.S. increased from 0.87 percent at the end of 2007 to 2.73 percent as of June 30, 2009. For banks chartered in Kentucky, this ratio increased much less from 1.01 percent to only 1.78 percent. Furthermore, net loan losses to total loans have been a fraction of the national average, with the Kentucky ratio at 0.52 percent compared to a national average of 2.32 percent.

Profitability has declined at Kentucky banks, but remains acceptable. For all commercial banks in the U.S.,

the return on average assets declined from 0.93 percent as of Dec. 31, 2007, to an anemic 0.07 percent, while the return on average assets for Kentucky banks declined from 1.02 percent to 0.82 percent. According to the Federal Deposit Insurance Corp., as of June 30, 2009, Kentucky had the eighth highest level of profitability out of the 50 states.

Furthermore, banks in Kentucky have typically maintained higher capital ratios than most banks. The Tier 1 Leverage Capital ratio of all commercial banks in the U.S. increased from 7.63 percent as of Dec. 31, 2007, to 8.15 percent as of June 30, 2009. During this same time period, the capital ratio of banks located in Kentucky fell slightly from 9.57 percent to 9.44 percent. However, in both time frames, Kentucky bankers maintained more capital, which provides a cushion to cover losses. One reason the capital

levels improved for all banks in the U.S. from 2007 to 2009 was the implementation of the U.S. Treasury's TARP program. As of October 2009, the U.S. Treasury invested \$205 billion into 683 banks throughout the country. However, only 12 banks in Kentucky received a total of \$191 million in TARP funds. Fortunately, Kentucky banks maintained higher capital ratios, and simply did not need to participate in the TARP program.

Kentucky's ability to weather the economic storm was not happenstance, but rather the by-product of good community bankers who abided by applicable rules, implemented reasonable credit underwriting standards, did not accept excessive credit risk and maintained strong capital levels. These same principles will serve the Commonwealth well as the recession ends and the economy starts to expand again.

In Brief...

IARD fees waived again for firms, representatives

The North American Securities Administrators Association (NASAA) will again waive the initial set-up and annual system fees paid by investment adviser firms and representatives to maintain the Investment Adviser Registration Depository (IARD) system.

"Given the current economic climate, we are pleased that the IARD system's continued success will allow us to maintain the system fee waivers put in place in 2005 for investment adviser firms and also to fully waive for a second year the system fees paid by representatives," said NASAA President Denise Voigt Crawford.

The IARD system is an Internet-based database sponsored by NASAA and the SEC and operated by FINRA in its role as a vendor. IARD provides a single nationwide database about individuals and firms in the investment advisory field and offers a single source for filing state and federal registration and notice filings.

The waiver in system fees does not apply to the state-mandated fees paid by firms and representatives to register in Kentucky, and state revenue will not be impacted.



Instructor Dean Duelke reviews analytical techniques with the examiners who attended the training.

DFI hosts loan training

A total of 21 students, some from out of state, participated in a seminar, Practical Credit Skills for Bank Examiners, hosted by DFI on Nov. 16-17. The course is designed to provide experienced examiners with a better understanding of commercial lending.

The instructor, Dean Duelke, provided analytical techniques with a focus on cash flow analysis and debt repayment ability rather than collateral value. The seminar provided tools and concepts for

examiners to use when evaluating the creditworthiness of a company and its ability to service and repay its debt. It also covered communications with bankers.

Fifteen DFI employees attended the training. Other attendees were from Ohio, Tennessee, West Virginia and Kansas. DFI was able to host the program through the Conference of State Bank Supervisors (CSBS) with the help of Sebastien Monnet and Tom McVey of CSBS.



Clockwise from top: DFI employees and other state government workers enjoy the chili cook-off; Public Protection Cabinet judges sample the chili entries; DFI attorneys Christy Lewis and Sally Mooney visit a vendor at the KECC Fun Fest; Commissioner Charles Vice stands beside the "great pumpkin."



Giving to charity

DFI contributed more than \$7,500 to the Kentucky Employees Charitable Campaign (KECC) in 2009. In total, state government raised more than \$1.4 million for the six KECC charities. For more information, visit www.kecc.org.

The statewide campaign kicked off on Aug. 10 with a "Galaxy of Games" event. DFI participated in the WHAS Crusade for Children booth featuring Password. Four DFI



Corn Hole and Trivia Tournament. DFI also participated in a two-building "Fun Fest" event Sept. 16 including a cookout, live band, games, silent auction, bake sale and booths. DFI contributed to the 70-item online auction the Tri-Cabinet sponsored, as well as holding an in-office silent auction of seven baskets, six gift cards and seven desserts. The DFI finale included a chili cook-off, where guest judges from the cabinet awarded Charles Vice's "SOS chili" the Golden Ladle. Other DFI fundraisers included a hot dog luncheon, a "FIDO Fiesta" (to celebrate the release of Phase I of the Financial Institutions Data Online system), a breakfast, a portrait raffle and a "Great Pumpkin" raffle of a 106-pound pumpkin.

"I hope everyone enjoyed the festivities, but most importantly we helped several families and organizations through our contributions to KECC," said DFI Commissioner Charles Vice. "Thank you again to everyone who participated, donated and helped."

In Brief...

DFI donates food for Make a Difference Day

DFI donated 38.72 pounds of food to the Make a Difference Day Food Drive. The Public Protection Cabinet (including DFI) raised 763 pounds of food. In total, the statewide effort yielded 123.27 tons, enough to feed 493,087 Kentuckians an 8-ounce serving. The food drive project was part of Make A Difference Day, an annual nationwide effort held on the fourth Saturday of October and billed as a day to help

others. USA Weekend magazine is the main sponsor.

DFI is co-coordinator of LifeSmarts program

This year, DFI is a co-coordinator of the state LifeSmarts program, with the Kentucky Attorney General's Office. LifeSmarts serves as an outreach opportunity for the agency to educate young consumers about their consumer rights and responsibilities. The Attorney General's Office initially sponsored the program during the first years of participation – 1998, and DFI and the Department of Insurance joined the

program as sponsors in 2001. Other sponsors include 4-H Cooperative Extension and the Better Business Bureau.

Each agency provides officials during competitions, as well as monetary support for the Kentucky winning team to travel to the national competition.

Teachers can still sign up to participate in 2010 LifeSmarts, which begins online at www.lifesmarts.org. The top-scoring teams compete in the state championship in Frankfort on March 4 for a chance to represent Kentucky at the national competition in Miami, Fla., on April 24-27.

DFI Contacts

Main Office:

1025 Capital
Center Drive,
Suite 200
Frankfort, KY
40601

502-573-3390

800-223-2579

Commissioner's

Office Fax:

502-573-8787

Bowling Green

Field Office:

400 East Main
Bowling Green, KY
42101

270-746-7047

Fax:

270-746-7049

Louisville

Field Office:

9112 Leesgate Rd.
Louisville, KY
40222

502-429-3290

Fax:

502-429-3295

Lexington

Field Office:

Spindletop
Administration
Building

2624 Research
Park Drive
Lexington, KY
40511

859-246-2740

Fax:

859-246-2743

"Of Interest in
Kentucky" is pub-
lished quarterly
by DFI. It is avail-
able free via e-
mail. To sub-
scribe or unsub-
scribe, e-mail
kelly.may@ky.gov.
The newsletter
also is available
on the Web at
www.kfi.ky.gov/
public/
newsletter.htm.

Meet the new staff members

Katy Mershon joined DFI as a Financial Institutions Examiner I in the Lexington Field Office on Aug. 16. She worked more than a year for the Kentucky Retirement Systems, counseling active members and retirees. Prior to that, she worked three years for the Administrative Office of the Courts. She earned a bachelor's degree in Business Administration and Finance from the University of Kentucky. Katy lives in Graefenburg where she works with the youth at her church. She has gone on several church missions and used to be a lead vocalist for a Christian Band.



Shaun Orme became DFI's Assistant General Counsel on Sept. 16. He brings nearly 16 years of experience in state government, including more than six years at the Department of Insurance. Most recently he was a hearing officer for the Cabinet for Health and Family



Services, where he also was an attorney supervisor. Shaun is a Certified Public Manager and previous office holder of the Kentucky Association of Administrative Adjudicators. He earned a bachelor's degree in political science and a juris doctorate from the University of Kentucky. While in law school he clerked for the Honorable Tony Wilhoit of the Kentucky Court of Appeals. He and his wife, Tricia, live in Frankfort and are expecting their first child in February. He also has two sons, Taylor and Josh.

Simon Berry became a staff attorney at DFI on Oct. 16. He previously worked in private practice specializing in commercial litigation. Prior to that, he was a securities compliance attorney for the investment bank Bear Stearns & Co. in New York. He also has litigation experience as a former Assistant Warren County Attorney. Simon received his law degree from the University of Kentucky. He lives in Louisville with his wife, Susie, and their two sons, Henry, 6, and Townes, 3.



In Brief ...

Two nominated for Governor's awards

Two DFI employees were nominated by DFI management for the 2009 Governor's Ambassador Awards. Ambrose Wilson IV was nominated for the community service/volunteerism award, noting his lifelong dedication to education, serving on the Woodford County Board of Education, and his leadership roles on numerous other community groups. Joel Catron was nominated for the leadership award, citing his willingness to sacrifice his convenience to serve the needs of DFI and its staff, as well as his dedication to

faith-based living and sharing with those less fortunate.

"I want to congratulate Ambrose and Joel on their nominations," said Vice. "While they were not selected, simply being recognized for their community service and leadership efforts is a great honor."

The awards program was established to highlight stories of employees who have positively impacted the lives of others. This year, 20 public service employees were recognized. A total of 98 nominations were accepted in six categories: customer service, courage, leadership, professional achievement, teamwork or community service and volunteerism.

More information is at <http://personnel.ky.gov>.

Wilson made chair of CSBS board

Ambrose Wilson IV has been appointed chairman of the national Mortgage Testing and Education Board of the Conference of State Bank Supervisors (CSBS). This board is comprised of regulators responsible for overseeing testing and education that mortgage originators will be required to take through the Nationwide Mortgage Licensing System (NMLS). Responsibilities include formally approving courses and providers, as well as making decisions about reported test-taking incidents.